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# **An Internal Control Review**

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## **Department of Water Resources**



***PREPARED BY***

**State of California  
The Resources Agency  
Department of Water Resources  
Internal Audit Office**

**February 2008  
Audit Report No. 395**

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## PREFACE

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The Department of Water Resources operations take place in Headquarters, five Divisions, four Districts, and organizational units.

The Internal Audit Office (IAO) has made a review and performed tests of the controls of the Department of Water Resources, Headquarters. The State Administrative Manual Section 20060 requires all state entities to prepare and submit a report on the adequacy of their entity's internal control every two years.

This review was conducted in accordance with the Standards for the Professional Practice of Internal Auditing as required by Government Code Section 1236. As required, we also considered the guidance developed by the Department of Finance. Our review included control features unique to the Department's Systems Application Program (SAP) environment.

The Legislature enacted the Financial Integrity and State Manager's Accountability Act of 1983 (FISMA), Government Code Section 13400, et. seq. which charged each state agency with the responsibility of maintaining effective systems of internal accounting and administrative controls as an integral part of its management practices.

The objective of performing this internal control review was to assist the Department in complying with the FISMA and determine whether: (1) assets are safeguarded from unauthorized use or disposition; (2) financial transactions are executed in accordance with management's authorizations and recorded properly to permit the preparation of reliable financial statements, (3) financial operations are conducted in accordance with State Administrative Manual (SAM) guidelines, certain state laws and regulations, and the Department's internal policies and procedures.

Our review included certain DWR field offices transactions only as they related to the Headquarters controls reviewed. However, the objective of this review was not specific to the field offices' internal controls. The field offices are evaluated separately.

This report is intended for the information of the DWR management. However, it is a matter of public record.

### STAFF:

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**INDEPENDENT AUDITOR'S REPORT**

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March 20, 2008

Mr. Lestor A. Snow, Director  
Department of Water Resources  
1416 9<sup>TH</sup> Street, Room 1115-1  
Sacramento, CA 95814

We have made a study and evaluation of the accounting and administrative controls of the Department of Water Resources (DWR), in effect as of February 22, 2008. Our study and evaluation was conducted in accordance with the Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors, and included the audit tests we considered necessary in determining whether accounting and administrative controls are in place and operative.

The DWR management is responsible for establishing and maintaining adequate internal controls. This responsibility, in accordance with Government Code Sections 13402 et seq., includes documenting the internal controls, communicating requirements to employees, and assuring that internal controls are functioning as prescribed. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures.

The objectives of the accounting and administrative controls for State agencies are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of reliable financial statements.
- Financial operations are conducted in accordance with policies and procedures established in the State Administrative Manual.

Our study and evaluation did not reveal significant internal controls problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. However, we did note some areas of elevated risk where corrective action is needed to minimize the potential for material errors, irregularities, and loss of assets. The areas in which internal controls should be strengthened are described in the Findings and Recommendations section of this report.

In our opinion, the DWR Headquarters accounting and administrative controls in effect as of February 22, 2008 taken as a whole, are sufficient to meet the objectives stated above.

If you have any questions about this audit report, you can contact me at (916) 653-8326.

Sincerely,

David Whitsell, Chief  
Internal Audit Office

## **FINDINGS AND RECOMMENDATIONS**

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### **CASH RECEIPTS**

Our review of the cash receipts consisted of but was not limited to determining whether there was adequate separation of duties, policies and procedures exist to ensure that accountability for cash is established timely, that procedures have been implemented to ensure that collections are deposited timely, transactions are correctly recorded, and collections are safeguarded. Our review disclosed the following control deficiencies:

#### **FINDING 1    Receipts Are Not Timely Forwarded to the Cash Receipts Section**

##### Observation

When the program staff bills the customer and receives the check, the staff does not always timely forward the receipts to the Cash Receipts Section. In some cases, the program staff takes months to determine where the checks should be applied. Also, the field offices do not always deposit collections within 10 working days. When the checks are not timely remitted and deposited in the State Treasurers Office, interest income is lost.

##### Criteria

SAM Section 8032.1 requires that agencies that have safes, vaults, money chests, or other comparable storage that is adequate to safeguard cash will accumulate collections until they amount to \$1,000 in cash or \$10,000 in cash, checks, money orders, and warrants (excluding state warrants and state checks), whichever occurs first.

Agencies that do not have a safe, vault, or money chest that is adequate to safeguard cash will accumulate collections until they amount to \$250 in cash or \$10,000 in cash, checks, money orders, and warrants (excluding state warrants and state checks), whichever occurs first. When such funds are not in use, they will be locked in a desk, file cabinet, or other mechanism providing comparable safekeeping.

Accumulated receipts of any amount will not remain undeposited for more than ten working days.

##### Recommendation

Develop policy and procedures in which program staff may perform the calculations for an accounts receivable but the calculations must then be forwarded to Fiscal Services Division's billing section to generate the invoice. Reiterate to the staff that in cases where

the field offices make deposits, the deposits must be made timely and forwarded timely to the Cash Receipts Section.

## **FINDING 2      Cost Allocation Plan Was Not Submitted to the DOF for Review and Approval Prior to Submission to the Federal Government**

### Observation

The Cost Allocation Plan (CAP) for fiscal years 2006 and 2007 was originally submitted to the federal agency in August 2004. A follow-up meeting was held in November 2004 and a final version of the CAP was submitted in February 2005. Ultimately, the federal agency approved the CAP on September 28, 2005. However; the CAP was never submitted to the Department of Finance, Fiscal Systems Consulting Unit for their approval prior to submission to the federal agency. Not submitting the plan to the Fiscal Systems and Consulting Unit (FSCU) in DOF could result in sanctions from the DOF.

### Criteria

SAM Sections 8755.2, 8756, and 8756.1 requires that an ICRP establishes the basis by which the department recovers full costs associated with programs/activities. Non-CALSTARS departments may substitute Cost Allocation Plans (CAPs) for ICRPs with the approval of the federal government. Departments will send their ICRPs or CAPs (non-CALSTARS) to FSCU for review and approval prior to sending them to the cognizant federal agencies for approval. ICRPs are to be filed with the cognizant federal agency at least six months before the start of the fiscal year to which the ICRP applies.

### Recommendation

Request an exemption from FSCU of their prior approval. If FSCU grants the exemption, request an exemption from the deadline of submitting the CAP to the federal agency at least six months prior to the start of the fiscal year to which the CAP applies.

## **REVOLVING FUND**

Our review of the office revolving fund included but was not limited to assessing whether there was compliance with policies and procedures, determine whether amounts advanced do not exceed authorized amounts, funds are used only for authorized purposes, and subsidiary records are reconciled to control accounts on a regular basis. Our review disclosed the following control deficiency:

## **FINDING 3      An Employee Authorized Its Own Travel Expense Claim**

### Observation

There was one instance in which an employee (claimant) approved its own Travel Expense Claim (TEC). When an employee is able to initiate and approve a disbursement documents there is an increased risk for fraud.



## Criteria

SAM Section 8080.1 states that, "The Financial Integrity and State Manager's Accountability Act of 1983 (Government Code Sections 13400-13407) requires that the head of each state agency establish and maintain an adequate system of internal control within their agencies. A key element in a system of internal control is separation of duties. This section provides the appropriate level of separation of duties for agencies with automated accounting processes. Employees of units other than the accounting/data processing units should be used, when necessary, to provide separation of duties. No one person will perform more than one of the following types of duties:

1. Designing Systems
2. Programming
3. Maintaining records file and operating mechanized equipment
4. Initiating disbursement document
5. Approving disbursement document
6. Inputting disbursement information
7. Receiving and depositing remittances
8. Inputting receipts information
9. Controlling blank check stock
10. Reconciling input to output
11. Initiating or preparing invoices

## Recommendation

Communicate to the TEC auditors to return and request proper authorizing signatures on TEC's approved by the same TEC claimant.

## **CASH DISBURSEMENTS**

Our review of cash disbursements consisted of but was not limited to reviewing the procedures and policies governing cash disbursements; separation of duties, timeliness of disbursements, accuracy and correctness of registers, proper approvals of checks, and safeguards over disbursements. Our review disclosed the following control deficiencies:

### **FINDING 4      An Employee Authorized Payment to Itself**

#### Observation

We found one instance in which the check preparer prepared its own check. When employees are able to authorize payments to themselves, there is an increased risk for fraud.

#### Criteria

SAM Section 8180 states that employees are prohibited from authorizing revolving fund checks payable to cash or themselves.

### Recommendation

Require check preparers to ensure that checks issued to them self are not in the check runs they process.

### **FINDING 5      Lack of Compliance with Policy to Prevent Misuse of Spoiled/Voided Checks**

#### Observation

We found two instances in which voided checks were not mutilated in order to prevent misuse of the voided checks. Also, 23 out of 127 (18%) spoiled/voided checks we reviewed were not kept on file.

#### Criteria

SAM Section 8041 requires that in order to prevent misuse of voided checks, agencies will stamp or write in ink the word "void" across the face of such checks. Agencies also will cut, tear off, or block out completely the signature portion of these checks unless they are voided for specimen purposes. All copies of voided checks will be retained by the agency for audit except those used as specimen checks. Agency files will contain records as to the disposition of specimen checks. Such records will be signed by an employee other than one authorized to sign checks.

#### Recommendation

Review current procedures for handling spoiled/voided checks. Ensure to communicate procedure revisions to the employees.

## **RECEIVABLES**

The review of the controls over receivables included a review of procedures for recording and collecting receivables; adequacy of separation of duties; action taken on outstanding accounts; review and accountability of uncollectible accounts prior to write off; review, approval, and support of adjustments. Our review disclosed the following control deficiency:

### **FINDING 6      Not All Accounts Receivables are Established for Reimbursable Programs and Customers are Not Invoiced Timely**

#### Observation

As of 6/07/07, the Governmental Billing Section had created accounts receivables in the amount of \$5.3 million for reimbursable contracts. The Governmental Billing Section's estimates that approximately \$9 million in accounts receivables should be created by 6/30/07. Because all of the accounts receivables have not been established, receivables are understated.

The Governmental Billing Section's attributes the lack of ARs created to the SAP grants module not working properly. The only apparent difference was that the receivables module for the prior version of SAP was being used to bill for the previous fiscal year and the Grants Management Module in the new version of SAP was being used to bill for the current fiscal year.

### Criteria

SAM Section 8776.12 requires that contingent receivables will be recognized in the accounts at the time the claim arises. Where the claim is to repay the state for expenses incurred by the state, the receivable will be recognized as of the date the expenses are incurred.

Also, SAM 8776.2 states that a valid accounts receivable is a receivable which is due and payable and for which there is no apparent disagreement over the validity of the claim or the amount at the time it was established. Due and payable refers to either a portion of or the whole claim. For instance, a long-term receivable which is payable in installments spread over many years would be "due and payable" when the obligation is incurred.

### Recommendation

Have appropriate FSD and DTS staff determines if the Grants Management Module can be configured to meet the Governmental Billings Section's needs. If so, make the configuration a top priority. If not, have the section use the module in the previous version of SAP for current fiscal year billings.

## **PURCHASES**

Our review of the purchasing of goods and services consisted of but was not limited to assessing compliance with the procedures and policies governing purchases; procedures for authorizing purchases, documenting purchases, timely payment of goods and services received, and invoices accuracy; and adequacy of separation of duties. Our review disclosed the following control deficiency:

### **Finding 7      Inadequate Separation of Duties**

#### Observation

There is inadequate separation of duties over the purchasing functions. The Division Chief in the Purchasing Services Office has access to the following SAP transaction codes that create a separation of duties conflict:

- Create purchase order for known vendor (transaction code ME21K)
- Create a purchase requisition (transaction code ME51N)
- Change a purchase requisition (transaction code ME52N)
- Release a purchase requisition (transaction code ME54N)
- Collective release of purchase requisitions (transaction code ME54N)
- Goods Receipt (MIGO)

In addition, six other employees have access to release a purchase requisition and receive goods (MIGO). A lack of adequate separation of duties increases the risk for fraud and other irregularities.

### Criteria

SAM Section 8080.1 describes separation of duties requirements for automated accounting processes and states that no one person will perform more than one of the following types of duties:

1. Designing Systems
2. Programming
3. Maintaining records file and operating mechanized equipment
4. Initiating disbursement document
5. Approving disbursement document
6. Inputting disbursement information
7. Receiving and depositing remittances
8. Inputting receipts information
9. Controlling blank check stock
10. Reconciling input to output
11. Initiating or preparing invoices

### Recommendation

Assign SAP access to employees ensuring that there is adequate separation of duties over the purchasing functions. On instances where management accepts the risk of not maintaining adequate separation of duties, ensure to document the acceptance of the risk that errors and irregularities can occur without proper separation of duties.

## **FIXED ASSETS**

Our review of property consisted of tests of but was not limited to assessing separation of duties; compliance with policy and procedures to ensure that the acquisitions and disposition of property is properly authorized, approved and recorded in the accounting records; recorded property is in existence; and adequate property accountability is maintained. Our review disclosed the following control deficiency:

### **Finding 8      Lack of a Department-Wide Inventory Every Three Years**

#### Observation

The Department wide fixed assets physical inventory has not been performed for the last three years. The Facilities Management Office did have a proposed inventory schedule; however, the inventory did not take place during the proposed period. Because the physical inventory has not taken place, the Department's inventory records are not accurate.

### Criteria

SAM Section 8652, Property Inventory, requires that Departments make a physical count of all property and reconcile the count with accounting records at least once every three years.

Department policy, DWR Administrative Manual, Section 8261, Inventory Schedules, requires an inventory to be made in each area of accountability as required, but at least every three years.

### Recommendation

The Facilities Management Office should revise the proposed schedule for the Department-wide inventory and start the inventory immediately. This inventory should be completed every three years. Furthermore, the Office should reconcile its inventory data to existing accounting data and follow-up on any discrepancies. Lastly, the office should provide its findings of the Department-wide inventory to the Financial Reporting and Analysis Office in the Fiscal Services Division so they may accurately certify the footnote in the Statement of General Fixed Assets-Report no. 19 in the Department's annual financial statements.

## **FINANCIAL REPORTING**

Our review of financial reporting consisted of but was not limited to determining that all reconciliations of account balances are timely reviewed by a responsible accounting employee; all required financial statements and reports are properly prepared, certified, transmitted and received when due or requested; and that adequate controls and procedures exist over the preparation of year-end financial statements. Our review disclosed the following control deficiencies:

### **FINDING 9      Financial Statements Were Not Timely Submitted**

#### Observation

We found that 12 out of 21 (57%) of the financial statements reviewed were submitted late to the required control agencies. The 12 financial statements were late from ten days to two months.

#### Criteria

SAM Section 7930 states that, "...to meet reporting requirements, agencies must submit various financial reports and forms to control agencies and other departments.....Due Date July 31, General Fund, Feeder Funds, and Economic Uncertainty Funds and Due Date August 20, all other funds."

#### Recommendation

Ensure to submit the financial statements to the control agencies within the prescribed dates.

## **FINDING 10      Lack of Required Certification on the Statement of General Fixed Assets**

### Observation

The Statement of General Fixed Assets, Statement No.19 did not contain a required certification statement on the performance of physical inventories. Also, Statement No. 19 was not signed. Statement No. 19 was not certified in accordance with Article 4, Chapter 1, Division 4, Title 1, Government Code (Commencing with Section 1090). The certification statement was omitted because a physical inventory has not been performed for the last three years. The certification statement should not have been omitted but should have noted that a physical inventory has not been performed for the last three years.

### Criteria

SAM Section 7978 illustrates Report No. 19, the Statement of General Fixed Assets and it has notes that pertain to physical inventories which states that, "1. Physical inventories of fixed assets are made at least once every three years. 2. Subsidiary fixed assets records are in agreement with the general ledger control accounts as shown above...I certify (or declare) ...that the foregoing is true and correct..." Furthermore, the illustration requires the Report No. 19 to be signed.

### Recommendation

Prepare Statement No. 19 ensuring to include the required note on whether a physical inventory of fixed assets has been performed as required. Furthermore, ensure to sign the Statement No. 19.

## **PERSONNEL**

Our review of the personnel/payroll consisted of but was not limited to assessing whether there was adequate separation of duties, policies and procedures exist for initiating and processing transactions; whether transactions are properly approved; correctness of payroll; adequacy of leave balances; and clearance procedures for separating employees. Our review disclosed the following control deficiencies:

## **FINDING 11      Inadequate Separation of Duties**

### Observation

We reviewed the Department employee's access to SAP Human Resources transaction codes and determined that there is a lack of separation of duties when access is authorized to transaction codes that create/establish employees in SAP (codes PA40, PA30, PO13), transaction codes to enter/record/maintain time data for employees (CAT2 and PA61), and transaction codes that approve release time data (CAT4).

We considered the assigned roles for the employees and the infotypes limitations set for the roles. We found that 16 employees that have access to approve time (CAT4) also have access to enter time (CAT2) for an employee within their organizational area of responsibility. A supervisor approving time should not be allowed to enter time in SAP for an employee.

We found that 11 employees are authorized to access transaction codes that allows them to perform all of the following conflicting transactions: create/establish an employee in SAP (PA40, PA30, PO13), enter time data (CAT2, PA61), and approve time data (CAT4). Five of the 11 employees are not supervisors; the other six are Administrative Officers and supervisors.

In addition, there were 27 employees that have access to transaction codes that allows a person to create/establish an employee and also enter time data for an employee. Also, 17 employees were found to have access to transaction codes that allows them to create/establish an employee and also approve the employee's time. Although these last two types of conflicting duties pose less of a fraud risk to the Department, they are considered to be in conflict with adequate separation of duties.

We also found other areas in which employees are performing incompatible duties. The Administrative Officer (AO) for the Administration and Executive Services performs incompatible duties when the AO distributes salary warrants to employees. The AO should not distribute warrants because the AO also creates/establishes employees in the SAP system and approve releases employee's time. The Budget Office supervisors also distribute salary warrants and approve release employee's time in SAP. Budget Office Administrative Analyst provides the supervisors undeliverable warrants for safeguarding and distribution. Furthermore, a Personnel Specialist certifies her own time and attendance as she certifies the Time and Attendance Report form 672 for the employees in the Division of Management Services.

Having duties which are not sufficiently separated to prevent one employee from controlling key functions of a transaction reduces the Department's ability to detect errors and irregularities, and places an individual in a position to perpetrate and to conceal irregularities in the normal course of the employee's duties.

This is a similar type of prior audit finding.

### Criteria

SAM Section 20050 states that elements of a satisfactory system of internal accounting and administrative controls shall include a plan of organization that provides segregation of duties appropriate for proper safeguarding of state assets.

SAM Section 8080.1 states that the head of each state agency establish and maintain an adequate system of internal control within their agencies. A key element in a system of internal control is separation of duties. This section provides the appropriate level of separation of duties for agencies with automated accounting processes. Employees of units other than the accounting/data processing units should be used, when necessary, to provide separation of duties.

No one person will perform more than one of the following types of duties:

1. Designing Systems
2. Programming
3. Maintaining records file and operating mechanized equipment
4. Initiating disbursement document
5. Approving disbursement document
6. Inputting disbursement information
7. Receiving and depositing remittances
8. Inputting receipts information
9. Controlling blank check stock
10. Reconciling input to output
11. Initiating or preparing invoices

SAM Section 8580.1 requires that persons designated by agencies to receive salary warrants from SCO, or to distribute salary warrants to employees, or to handle salary warrants for any other purpose will not be authorized to process or sign Absence and Additional Time Worked Report form, STD. 634 (SAP Time Statement).

SAM Section 8539 states that persons certifying attendance reports cannot certify his/her own attendance report.

#### Recommendation

The Department should evaluate the Human Resources roles assigned to employees and ensure that access to transaction codes that create/establish an employee, enter time data, and approve release time data are adequately separated.

Also, ensure that supervisors who approve/release employee's time do not have access to or distribute salary warrants to employees. Furthermore, make sure that the employee certifying the attendance reports does not certify his/her own.

### **FINDING 12      Lack of Timely Revisions to the Timekeeper's Manual**

#### Observation

The Timekeeper's Manual has not been revised since 1999. The manual was prepared to assist Time Recorders in recording daily attendance of employees within their area of responsibility; however, the manual contains outdated procedures and guidance. For example, the Timekeeper's Manual Section 3000 on Attendance Records refers to the Attendance Record, DWR 2764 as the Department's official attendance reporting form and provides guidance in its manual processing. Presently the Time Recorders and employees electronically report attendances and absences on the Cross Application Time Sheet (CATS) through SAP or Employee Self Service (ESS). Furthermore, the Department Administrative Manual, Section 3102 refers to the Timekeeper's Manual for guidance, although the manual is outdated.

There are no assurances that the Department's personnel/payroll policies and procedures are carried out efficiently and without errors and irregularities.



## Criteria

Government Code Section 13402 states that, "State agency heads are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions."

## Recommendation

Revise the Timekeeper's Manual ensuring that it reflects the Department's current policies and procedures. Also, periodically review it and timely update it.

### **FINDING 13      Inadequate Safeguarding and Distribution of Warrants/Direct Deposit Advices**

#### Observation

We reviewed Headquarters' process for safeguarding and distributing salary warrants/direct deposit advices and found the following: the salary warrants and direct deposit advices are not always safeguarded by the Payments/Disbursement and Payroll section. We observed on July 24, 2007 that the Accounting Technician left unattended and unsafeguarded 33 warrants and 73 direct deposit advices for at least 45 minutes.

Also, the Budget Office's Associate Administrative Analyst who is responsible for distributing warrants/direct deposit advices, delivers the direct deposit advices in the employee's unlocked pencil drawers.

The Executive Services' Business Services Assistant (BSA) who also is responsible for distributing warrants and direct deposit advices, does not safeguard the key to the overhead cabinet where the warrants and direct deposit advices are kept prior to distribution. Unauthorized people, as the Administrative Officer (AO) in the Administration and Executive Services have access to the key and distributes salary warrants/direct deposit advices in the absence of the BSA.

Without adequate safeguarding of the warrants/direct deposit advices, there is a risk that warrants/direct deposit advices may be lost or misappropriated and could result as a liability to the Department. Also, sensitive and confidential information on the direct deposit statements could be misused by an unauthorized person. Furthermore, AO's access and distribution of salary warrants/direct deposit advices create a separation of duties conflict since the AO also approves employee's time in SAP.

## Criteria

Department of Personnel Administration, Memorandum, Reference Code 2000-019 states that, "...all departments, boards, offices, and other agencies and entities of the State shall distribute pay warrants and direct deposit advice to employees in a

manner that ensures that personal and confidential information contained on the warrants and direct deposit advice is protected from unauthorized access. DPA asks that all departments review their current practices and, if needed, take the necessary steps to prevent unauthorized access of pay warrants and direct deposit advice.”

Also, principles of sound business practice require that warrants and direct deposit advices be safeguarded at all times by means of a locked drawer, locked desk, or safe.

#### Recommendation

Safeguard salary warrants and direct deposit advices at all times and ensure that only authorized employees distribute them.

### **FINDING 14      Non Compliance with Exit Procedures for Separating Employees**

#### Observation

Separating employee’s final payments are not adequately processed as follows: we sampled 20 employees separated from DWR in fiscal year 06/07 and found that four were overpaid in their final warrant. The total overpayment for the four separated employees was \$4,700. The employees were overpaid due to outstanding salary advances and an accounts receivable advance not recovered from the final warrant. The Personnel Office and the Payments/Disbursement and Payroll section did not adequately ensure that the outstanding amounts were recovered before issuing the final warrant. Also, one of the four overpayments was due to an incorrect calculation on the leave Lump Sum Worksheet. As of January 2008, the outstanding salary advances and accounts receivable had not been recovered.

The Personnel Office, Payroll and Benefits Services does not always performs an independent review of separation payment documents (i.e. Personnel Action Request and Lump Sum Worksheets) processed by the Personnel Specialist prior to the release of the final warrants. An independent review of the separation final payment is only performed by a lead person or supervisor for new Personnel Specialists. 17 out of 18 separating employees Personnel Action Request did not have an indication of a lead person or supervisor review. Also, 9 out of 20 Lump Sum Worksheets sampled did not have an indication of an independent review.

The separating Transfer and Termination of Employment form DWR 2993 is not adequately completed and lacks approving signatures. We reviewed 20 DWR 2993’s and 16 had PART 3 not completed, signed, or dated by the Personnel Specialist. PART3 of the DWR 2993 form documents information on the final paycheck clearance. Also, eight of the 20 DWR 2993 forms did not have PART 4 completed, signed or dated by the employee’s supervisors. PART 4 documents whether items like keys, electronic key cards, and General Service’s charge cards were returned by the separating employee.

Without an independent review of the final payments, errors and overpayments could go unnoticed. The Department is at a risk that undetected separation overpayments

could result in a loss. Also, there are no assurances that all State property is returned if the DWR 2993 form is not properly completed, signed and dated.

### Criteria

SAM Section 8580.4 states that, "Salary warrants will not be distributed to separating employees until the department had verified that all travel and salary advances have been paid (cleared)...It is recommended that a check-out list acknowledging the return of state-owned items such as credit cards, keys, state records, and equipment be completed for separating employees prior to the release of the final warrant. The check-out list may also include the verification from the office revolving fund staff that there are no outstanding advances...If, after the check-out, the separating employee leaves owing the department money, it is the responsibility of the department to pursue collections as described in SAM Section 8776.6."

### Recommendation

Perform an independent review of separation documents prior to authorizing the release of the employee's final warrant. Ensure that final pay is correct, outstanding advances are recovered, and signature approvals are obtained on the Transfer and Termination of Employment form.

Furthermore, review all outstanding salary advances and accounts receivable and collect any amounts owed from separated employees.

## **FINDING 15      Inadequate Procedures for Undeliverable Salary Warrants/Direct Deposit Advices**

### Observation

We reviewed the Department's procedures followed for salary warrants/direct deposit advices not delivered within five days of receipt and found that the salary warrants/direct deposit advices are not returned to the Payment/Disbursement and Payroll section. The section precludes the designated persons distributing the warrants/direct deposit advices from returning undelivered warrants.

Also, salary warrants retained by the Payment/Disbursement and Payroll section and not delivered for over 90 days are not remitted to an escheat revenue account. As of October 1, 2007 there were six warrants undelivered over 90 days and not escheated. One of the six warrants was over 360 days. The Department relies on the escheat procedures followed by the State Controllers Office after the warrants have been outstanding over 12 months.

Not allowing the warrants and direct deposit advices to be returned to the office which originally distributed them, could result in warrants and direct deposit advices being misplaced and misappropriated.

## Criteria

SAM Section 8580.5 states that, "Salary warrants not delivered within five days of pickup shall be returned to the office which distributes salary warrants. A written record of all undelivered warrants will be maintained and a copy given to the payroll office. Warrants not delivered within 90 calendar days of receipt must be deposited and remitted to an escheat revenue account in the original fund that provided the resources to the State Payroll Revolving Fund."

## Recommendation

Establish a process that allows persons designated to pick up and distribute warrants and direct deposit advices to return undelivered items to the Payment/Disbursement and Payroll section. Ensure that the process includes a written record of all undelivered warrants and direct deposit advices. Also, timely remit to an escheat revenue account the warrants not delivered within 90 days.

## **FINDING 16      Employee's Time is Not Always Approved Released by an Appropriate Level of Management**

### Observation

We found that one out of 14 employee's time was not approved released in the SAP system by an adequate level of management. The time entered in SAP for the CEA of the Division of Fiscal Services for March 1, 2007 through March 23, 2007; April 2, 2007 through April 30, 2007, and May 21, 2007 through May 25, 2007 was approved released by the AO in the Administration and Executive Services in place of the CEA's immediate supervisor.

The AO has been assigned the responsibility to approve release in SAP the time of Deputy Directors and other staff in the absence of a Deputy Director.

Without a proper level of management review of the employee's time entered into the SAP system prior to release of the time data, increases the risk that errors and irregularities can occur and remain undetected.

## Criteria

GC 13403 states that the elements of a satisfactory system of internal accounting and administrative controls, shall include a system of authorization and record keeping procedures adequate to provide effective accounting control over assets, liabilities, revenues and expenditures.

## Recommendation

Perform an evaluation of the Department's management/supervisor resources and assign time approval release responsibilities at the appropriate level within each organizational area; ensuring to minimize the risk of errors and irregularities for the time approved released.

## **FINDING 17      Non Compliance with Prescribed Limits of Accumulated Leave Balances**

### Observation

We reviewed the accumulated leave balances for 2,857 DWR employees and found that 325 employees (or 11%) had accumulated vacation and annual leave balances over the prescribed limit. As of June 1, 2007, there was a total of 68,877.6 hours of vacation and annual leave over the prescribed limits for the 325 employees. The Department does not monitor the leave balances to ensure that the employee's excessive leave balances are reduced and maintained within the prescribed limits. The excessive leave balances create a liability for the Department.

This is a similar type prior audit finding.

### Criteria

Memorandum of Understandings for the represented State employees and the Department of Personnel Administration regulations for non-represented employees have maximum allowable hours which employees may carry as vacation and annual leave.

### Recommendation

Develop a monitoring plan to ensure that the leave balances are reduced and maintained within prescribed limits.

## **FINDING 18      Non Compliance with Direct Deposit Program Requirements**

### Observation

The Department's written internal requirements for employee's to participate in the Direct Deposit Program are not complied with. Hourly employees are enrolled without the required 40 hours minimum leave balance, although the written internal policy does not exclude them from the minimum requirement. The Personnel Office has not required the hourly employees to comply with this requirement based on previous management instruction.

Overpayment of hourly employee's time could occur and leave hours might not be available to ensure that the Department timely recovers time overpaid.

### Criteria

Time Keeper's Manual Section 5900 states that, "Employees who elect to participate in the direct deposit program...must also have a combined leave balance (vacation, annual, personal holiday, saturday holiday, personal leave, and sick leave) of 40 hours or more. A maximum of 20 hours sick leave may be applied to this requirement. If the leave balance falls below the minimum requirement, the Personnel Office may administratively cancel direct deposit authorization."

## Recommendation

Ensure that the Department internal written policy on the Direct Deposit Program's minimum leave hours requirement is complied with.

### **FINDING 19      Untimely and Incomplete Revision of the SCO Personnel/Payroll Document Signature Card Authorization List**

#### Observation

We reviewed the June 15, 2007 SCO Personnel/Payroll Document Signature Card Authorization form (PPSD 8A) that identifies staff authorized to approve personnel/payroll transactions and found that the revisions made were for signature card changes that occurred between October 2006 and February 2007. Furthermore, the PPCSD 8A form was not correctly revised. The June 15, 2007 revision included three employees that were no longer authorized signers. One of the three employees had changed duties within the Accounting Branch, one had transferred to the Budget Office, and one had separated from the Department. Also, the revision did not list two Personnel Specialists who were authorized signers and had signature cards on file.

There is a lack of communication between the Accounting Branch and the Personnel Office when changes occur in the signature card authorizations. The Department is at risk of processing personnel/payroll documents signed by unauthorized employees and could result in errors and irregularities.

This is a similar type of prior audit finding.

#### Criteria

SAM Section 8539 states that, "Authorizing signatures will be compared to the lists, which will be continuously updated."

#### Recommendation

The Personnel Office should timely and accurately revise the PPCSD 8A form and ensure to communicate with the Accounting Branch for signature card changes.

## **BUDGET & CONTRACTS**

Our review of the controls over the budget process and the contract process did not disclose any internal control risk areas.

We found the following budget controls to be in place: established policies and procedures exist; budget changes are properly approved and timely recorded; the final budget is properly and timely entered to the Allotment Expenditure Ledger; and the budget is used for authorized purposes only.

Also, we found the following contract controls to be in place: adequate separation of duties; established procedures for authorizing contracts, adequate controls over consultant contracts; timely and adequate payments, and Annual Reports properly completed.

## **CONCLUSION**

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This report discusses the Department of Water Resources, Headquarters accounting and administrative internal controls. As discussed in the Finding and Recommendations section of this report, we have identified some opportunities for strengthening the Department's controls. Management has started and/or has implemented corrective action to improve the findings that we reported.

The findings in this report are based on field work performed between January 21, 2007 and February 22, 2008. My staff met with the Department of Water Resources management and supervisors and discussed the audit findings and recommendations of our review. We issued draft reports for management's review and response. The responses are included in this report.



## **RESPONSES**

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See next page.

# Memorandum

Date: November 2, 2007

To: David Whitsell, Chief  
Internal Audit Office

From: Perla Netto-Brown, Chief  
Division of Fiscal Services  
Department of Water Resources

Subject: Response to the SAM 20060 Cash Receipts Final Draft Audit Finding Statement 2007

We have reviewed the final draft audit finding statement issued by the Internal Audit Office and we are providing the following response to the findings and recommendations described in the audit report.

**Finding No. 1: Cash receipts are not always timely forwarded to the Cash Receipts Section.**

We agree with this finding. The Cash Receipts Section is currently working on sending a Department-wide memo explaining the policy and procedures of receipting monies to the Department. The attached memorandum is expected to be sent to all Department employees in November 2007.

**Finding No. 2: The Cost Allocation Plan was not submitted to the Fiscal Systems and Consulting Unit, Department of Finance (DOF), for review and approval prior to submission to the federal government.**

We agree with this finding. The Department's most recent Cost Allocation Plan (CAP) was not submitted to DOF for review and approval prior to submission to the federal government. The Department had been operating without an Indirect Rate/Cost Allocation Plan for several years since the implementation of SAP in 1999. The Budget Office initiated a new CAP, but worked directly with the federal cognizant agency (National Business Center) to ensure that they understood our SAP processes and that we met their requirements. For future cost allocation plans, the Budget Office intends to obtain DOF approval prior to submission of the plan to the federal government, recognizing that this could delay approval of a CAP by several weeks or months.

Attachment


SURNAME  
DWR 155 (Rev 4/02)

Netto-Brown  
11/2/07

# Memorandum

Date: January 8, 2008

To: David Whitsell, Chief  
Internal Audit Office

From: Perla Netto-Brown, Chief   
Division of Fiscal Services  
Department of Water Resources

Subject: Response to the SAM 20060 Revolving Fund Final Draft Audit Finding  
Statement 2007

We have reviewed the final draft audit finding statement issued by the Internal Audit Office and the following is in response to the findings and recommendations described in the audit report.


## **Finding No. 1: An employee was able to authorize his own TEC**

We agree with this finding. The Headquarters Travel Unit staff was reminded to verify that the employee's signature and the approving officer's signature on the Travel Expense Claim are not the same. Travel Unit staff were also reminded to verify the signatures against the employee's organizational chart to ensure the approving officer is within the employee's chain of command. If the approving officer is not within the employee's chain of command, the Travel Unit staff was reminded to attach a copy of the employee's immediate supervisor's delegation order to the Travel Expense Claim.

A memorandum is being prepared by the Fiscal Office that will be distributed to all Departmental employees reminding them that they cannot approve their own Travel Expense Claim, even when performing in an acting capacity.

On a side note: The employee that inadvertently paid the claim resulting in the audit finding no longer works for the Department of Water Resources.

SURNAME  
DWR 155 (Rev 4/02)

 1/9/08

# Memorandum

Date: December 28, 2007

To: David Whitsell, Chief  
Internal Audit Office

From: Perla Netto-Brown  
Division of Fiscal Services  
Department of Water Resources

Subject: **Response to the SAM 20060 Cash Disbursements Final Draft  
Audit Finding Statement 2007**

We have reviewed the final draft audit finding statement issued by the Internal Audit Office and we are providing the following response to the findings and recommendations described in the audit report.

## **Finding No. 1 Employees were able to authorize payment to themselves.**

We agree with this finding. A meeting took place on November 13, 2007 with the employee who issued their own revolving fund (ORF) check. This meeting was followed up with a written memorandum, explaining the criticality of this issue and a reminder of the process for preventing future occurrences. In addition, all Headquarter Check Processing staff received a verbal reminder of the Department's check printing process to ensure no one else makes the same error. It should be noted that the revolving fund check still needed to be reviewed and signed by an authorized signatory before the check would be considered a valid financial instrument available for further processing.

## **Finding No. 2 Policy to prevent misuse of spoiled/voided checks was not followed.**

We agree with this finding. Upon reviewing the list of spoiled/voided checks not found in the file, it has been determined that 18 of the 23 Office Revolving Fund (ORF) checks had stop payments issued against them. This indicates that the ORF check was lost and the Fiscal Office was requested to replace the check; therefore, there would not be a physical ORF check in the file. In the future, in order to better identify which ORF checks have a stop payment issued against them, we will be submitting a request to the SAP Production Office to add the following reason codes when voiding checks in SAP:

- Escheat/Stale Dated Check
- Stop Payment

An additional procedural change will be to file a copy of the Stop Payment Request, Std. 432, in with the physical checks maintained by the File Clerk. This will help identify the reason why the physical check is unavailable.

The remaining 5 ORF checks are still missing from the records file. The Fiscal Office, which includes the Disbursements Unit, Cash Receipts Unit, and the General Ledger Units, have verified that the procedures for handling/filing voided checks are accurate and currently being followed by Fiscal staff. These checks appear to have been misfiled.

The Disbursement Office staff has also been reminded of the importance of cutting out the signature block on spoiled/voided ORF checks.

SURNAME  
DWR 155 (Rev 11/04)

*Netto-Brown*  
*12/28/07*

*Whitsell*  
*12-28-07*



# Memorandum

Date: July 13, 2007

To: David Whitsell, Chief  
Internal Audit Office

From: Perla Netto-Brown, Chief  
Division of Fiscal Services  
Department of Water Resources

Subject: Audit Report: Accounts Receivable Sub-Cycle, 2007 SAM 20,000 Audit

Thank you for the opportunity to respond to your audit of the Accounts Receivable Sub-Cycle. Our response to the Internal Controls Review is as follows:

FINDING 1: We agree that we did have an issue with the implementation of the new grants management module ability to get invoices out in a timely manner to our customers. However, since May we have had a significant turnaround in our ability to use this module due to the resolution of many outstanding issues. As of June 30, 2007 the Governmental Billing Section had billed customers in the amount of \$9.2 million of the \$11.3 million outstanding reimbursable receivables. Now that the majority of issues relating to this module have been resolved, we are confident that this module will be able to meet the Department's reimbursable billing needs and will help to better manage these receivables.

If you have any questions regarding this information, please contact me at (916)653-9836 or Theresa Lightle, Deputy Comptroller, at (916) 653-6148.

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SURNAME  
DWR 155 (Rev 4/02)

PNB 7/13/07

# Memorandum

Date: January 29, 2008

To: David Whitsell, Chief  
Internal Audit Office

Kim Oliphint, Chief,  
Departmental Service Office  
Division of Management Services  
From: Department of Water Resources

Subject: Response to the Internal Control Final Draft Audit Report for the Purchasing Cycle

We have reviewed the preliminary draft of the SAM 20060 Purchasing Sub-Cycle audit report issued by the Internal Audit Office and are providing the following response to the findings and recommendations described in the report.

**Finding No. 1 – Some staff have separation of duties conflicts and, therefore, can perform more than one key element in the control system for the purchasing cycle.**

We agree with this finding. The one individual in the Purchasing Service Office (PSO) that has the access you describe is the Chief of PSO, Dave Kearney. Dave was granted these authorizations in order to assist staff and end-users with problems associated with DWR's SAP enterprise software. These problems are documented through the DWR Help Desk using Remedy software, and his access is still necessary for problem resolution and training purposes.

Regarding the employees with access to releasing a purchase requisition (ME54N) and the Goods Receipt (MIGO) transactions, we have taken partial corrective action by having access removed for all identified employees with two exceptions. The employees with access removed are Katherine Gould with Oroville Field Division, Rob Dunlop with San Luis Field Division, Bryan Reniff and Philip Carrey with the Division of Flood Management, Jim Pearson with the Division of Management Services, Gia Barrera with the San Joaquin Field Division and Laura Delphina with the Southern Field Division. This was done through SAP Security this week. The other identified employees, Chris Almazan and Cathy Shannon require access to these transactions in their role as business services supervisors for their respective organizations. The risk is limited as these individuals do not have buying authority to create purchase orders. Management at these locations has accepted the risk.

If you have any questions, please contact me at (916) 653-5561 or Dave Kearney at (916) 653-6088.

cc: James E. Libonati  
Bill Fackenthall  
Dave Kearney  
Pete Scheele

SURNAME  
DWR 155 (Rev 11/04)

*Oliphint*  
*1/29/08*

## Memorandum

Date: January 17, 2008

To: David Whitsell, Chief  
Internal Audit Office

Kim Oliphint, Chief  
Departmental Services Office  
From: Department of Water Resources

Subject: **Response to the Internal Control Final Draft Audit Report  
For the Fixed Assets Cycle**

We have reviewed the final draft audit report issued by the Internal Audit Office and we are providing the following response to the findings and recommendations described in the audit report.

### **Finding No. 1**

We agree to this finding. The Facilities Management Office has been working on policy, procedure, training and scheduling of department-wide physical inventories. Please refer to the attached 3-year schedule of each division's inventory.

If you have any questions, please contact me at (916) 653-556.

Attachment

cc: James E. Libonati

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SURNAME  
DWR 155 (Rev 11/04)

*Oliphint*  
1/18/08

# Memorandum

Date: March 3, 2008

To: David Whitsell, Chief  
Internal Audit Office

From: Perla Netto-Brown, Chief  
Division of Fiscal Services  
Department of Water Resources



Subject: Response to the Internal Control Final Draft Audit Report for the Financial Reporting Cycle, Audit Report No.

We have reviewed the final draft audit report issued by the Internal Audit Office and we are providing the following response to the findings and recommendations described in the audit report.

**FINDING 1: Financial Statements were not submitted to SCO in a timely manner.**

**OBSERVATION:**

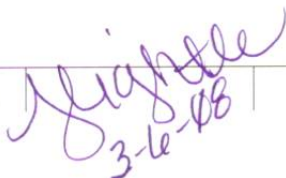
12/21(57%) Financial Statements were not submitted according to the dates as required in SAM 7930.

**RECOMMENDATION:**

We recommend that the financial statements be submitted in accordance with the prescribed dates in SAM 7930.

We agree with this finding. On June 30, 2006 the Department migrated from SAP 4.5b to SAP ERP (Next Wave). This was a major system conversion and required that all system data be migrated to the new SAP system. June 30, 2007 was the first year-end close in the SAP ERP (Next Wave) system. At the beginning of July 2007, we discovered that various project costing assessments needed to be corrected and that all data for FY2007 needed to be reassessed in SAP. We determined that this would delay the Department's financial reporting by four weeks. The financial impact of the assessments was estimated to be material and the Deputy Director of Business Operations approved the financial reporting delay. Barring no further issues with the SAP financial data, the Accounting Branch has a history of reporting per SAM 7930 and foresees no issues with reporting in a timely manner going forward.

SURNAME  
DWR 155 (Rev 4/02)





**FINDING 2: Statement No. 19 is not in compliance with SAM.**

**OBSERVATION**

The Statement of General Fixed Assets, Statement No.19 is not in compliance with SAM. The Statement did not contain the certification statement and thus was not certified in Accordance with Article 4, Chapter 1, Division 4, Title 1, Government Code (Commencing with Section 1090).

**RECOMMENDATION:**

We are aware that a physical inventory has not taken place within the last three years as required by SAM. Thus, to certify this statement to that fact would be erroneous. However; the IAO feels that a footnote should be added to Statement No. 19 that addresses the issue that no Fixed Asset inventory has taken place, thus the accounting office cannot certify Statement No. 19 at this time.

We agree with this finding. The Financial Reporting and Analysis Office will add a footnote to Statement No. 19 disclosing the Department has not performed a physical inventory of Fixed Assets which prevents the Accounting Branch from certifying Statement No. 19 as of June 30, 200X.

# Memorandum

Date: March 5, 2008

To: David Whitsell, Chief  
Internal Audit Office

From: Jim Libonati, Acting Deputy Director  
Business Operations  
Department of Water Resources

Subject: Response to the Internal Control Review, Human Resources/Payroll Sub-cycle Audit Finding Statement

We have reviewed the Human Resources/Payroll Sub-cycle Audit Finding Statement and below are our responses to the findings and recommendations:

## FINDING - Inadequate Separation of Duties

### Internal Audit Office recommendation:

The Department should evaluate the Human Resources roles assigned to employees and ensure that access to transaction codes that create/establish an employee, enter time data, and approve release time data are adequately separated.

Also, the Department should ensure that superiors who approve/release employees' time do not have access to or distribute salary warrants to the same employees. Furthermore, the Department should make sure that the employee certifying the attendance reports does not certify his/her own.

## CORRECTIVE ACTION PLAN

We agree with this finding as it pertains to Division of Management Services (DMS). To ensure that employee roles are adequately separated, we will evaluate the Human Resources roles throughout the Department and create, remove or change the existing roles with support from the Division of Technology Services' (DTS) security staff. In addition, we will review the current process on how roles are authorized and assigned to users automatically by DTS staff without first submitting the request to the Personnel Office for approval. Due to the current SAP Stabilization Project that is a high priority for the Department and DTS staff, we plan on completing this by December 30, 2008.

Effective immediately, the Personnel Specialist's attendance for the Division of Management Services will be certified by another staff member.

SURNAME  
DWR 155 (Rev 11/04)

*Libonati*  
3/5/08

#### FINDING - Lack of Timely Revisions to the Timekeeper's Manual

##### Internal Audit Office recommendation:

Revise the Timekeeper's Manual ensuring that it reflects the Department's current policies and procedures. Also, periodically review it and timely update it.

##### CORRECTIVE ACTION PLAN

We agree with this deficiency. The Timekeeper's Manual is outdated and was recently removed from the Personnel Office website. A new Time Recorder Manual that reflects current policies and SAP processes has been drafted and is currently being used for our hands-on Time Recorder's training courses. This manual provides guidance in recording daily attendance and running attendance reports. The finalized version will be completed and placed on the Personnel Office web page by June 30, 2008.

#### FINDING - Non-Compliance with Exit Procedures for Separating Employees

##### Internal Audit Office recommendation:

Perform an independent review of separation documents prior to authorizing the release of the employee's final warrant. Ensure that final pay is correct, outstanding advances are recovered, and signature approvals are obtained on the Transfer and Termination of Employment form.

Furthermore, review all outstanding salary advances and accounts receivables and collect any amounts owed from separated employees.

##### CORRECTIVE ACTION PLAN

We agree with this deficiency as it pertains to DMS. The Personnel Office and the Division of Fiscal Services (DFS) will work together to ensure that outstanding debts are recovered from the employee's final warrant. We will also complete a second review of all Lump Sum calculation worksheets. This new process was communicated to all Payroll and Benefits staff on February 25, 2008. However, we do not agree that a second senior staff review of the Personnel Action Request (PAR) documenting the separation is necessary.

In accordance with your recommendations, Payroll and Benefits staff were also reminded to complete and sign Part 3 of the DWR 2993. Part 4 of this form is a supervisor's checklist and to be completed by the supervisor with the employee on their last day and submitted to their Administrative Officer - not the Personnel Office as your audit cited.



The Personnel and Fiscal Offices agree that the DWR 2993 should be revised to clarify the appropriate routing process. We will also discuss the option of revising the DWR 2993 and splitting the form into two parts:

- 1) DWR 2993A solely for the use by the Personnel and Fiscal Offices; and
- 2) DWR 2993B for use by division as a supervisor's check list on the employee's last day.

The Personnel and Fiscal Offices are currently reviewing all outstanding accounts receivables and salary advances to initiate and/or complete the collection process. This is expected to be completed by April 30, 2008.

#### FINDING - Non-Compliance with Prescribed Limits of Accumulated Leave Balances

Internal Audit Office recommendation:

Develop a monitoring plan to ensure that the leave balances are reduced and maintained within the prescribed limits.

#### CORRECTIVE ACTION PLAN

The Directorate has decided, as recently as 2006 that DWR was not going to enforce employee leave Caps. Further, our understanding is that most other state agencies do not enforce leave Caps.

#### FINDING - Non-Compliance with Direct Deposit Program Requirements

Internal Audit Office recommendation:

Ensure that the Department's internal written policy on the Direct Deposit Program's minimum leave hours requirement is complied with.

#### CORRECTIVE ACTION PLAN

It has been the Department's practice to cancel negative paid employees who fall below the 40 hours because their pay warrants automatically generate approximately 10 days before payday. However, since hourly employees are positive paid employees and their pay is not certified and submitted to the State Controller's Office until the day after the end of the pay period, the risk of an overpayment is very minimal; therefore, the hour requirement for hourly employees is no longer necessary.

Personnel Office staff is in the process of updating the Departments policy to be in compliance with our actual practice, which will be included in the Department's Administrative Manual (DAM) by June 30, 2008.

FINDING - Untimely and Incomplete Revision of the SCO Personnel Signature Card Authorization List

Internal Audit Office recommendation:

The Personnel Office should timely and accurately revise the PPSD communicate with the Accounting Branch for signature card changes

#### CORRECTIVE ACTION PLAN

We agree with this deficiency as it pertains to DMS. The Accounting Personnel Office worked cooperatively to update the SCO Personnel Signature Card Authorization form (PPSD 8A) and submitted it to the on February 27, 2008.

In the future, the Accounting Branch will begin to communicate with F any changes that occur in their unit so that timely revisions can be co

# Memorandum

Date: February 27, 2008

To: David Whitsell, Chief  
Internal Audits

From: Perla Netto-Brown, Chief  
Division of Fiscal Services  
Department of Water Resources

*PNB*

Subject: Response to the Internal Control Review, Human Resources/Payroll Sub-Cycle Audit Finding Statement

We have received the Human Resources/Payroll Sub-Cycle Audit Finding Statement and we are providing the following response to the findings and recommendations:

## **FINDING: Inadequate Separation of Duties**

We partly agree with this finding. A portion of the finding that pertains to the Fiscal Office is in regard to the Administrative Officer and Budget Office Supervisors distributing warrants to employees. An all employee memorandum stressing the responsibilities of the individuals authorized to pick up Salary Warrants/Checks will be distributed. In addition to the all employee memo, we will update DWR 9530 to further define the responsibilities of the individuals authorized to pick up Salary Warrants/Checks. The all employee memo and form revision will be completed by March 3, 2008.

## **FINDING: Inadequate Safeguarding and Distribution of Warrants/Direct Deposit Advices**

We agree with this deficiency. When this issue first occurred with the employee, the Fiscal Office reiterated the necessity of safeguarding the Department's assets. The employee and Line Management understand the seriousness of the finding and that compliance is mandatory. The Payroll and Disbursements supervisor has been instructed to closely monitor employee compliance.

## **FINDING: Inadequate Procedures for Undeliverable Salary Warrants/Direct Deposit Advices**

We agree with this deficiency. Fiscal Services Payroll/Disbursement Office will implement a new process in order to comply with this finding. The new process will include the receipt and recording of Salary Warrants/Checks that are undeliverable within five days of receipt to the individuals authorized to receive warrants. The new process will also include the issuance of a listing of all warrants that are undeliverable over 90 days to the Personnel Office. The Payroll/Disbursement Office

SURNAME  
DWR 155 (Rev 11/04)

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*Whitsell*  
*2-27-08*



will send an all employee memorandum to notify the authorized individuals who pick up Salary Warrants/Checks of the procedure changes by March 3, 2008. The undeliverable warrant listing will be sent to the Personnel Office on a monthly basis. The Personnel Office will be responsible for preparing the STD 674 or STD 674D form for deposit and remittance to the escheat revenue account.

**FINDING: Employee's Time is Not Always Approved/Released by an Appropriate Level of Management**

We disagree with this deficiency. This is not a Fiscal issue to address. Timesheets and time approval are the responsibility of the Personnel Office.

**FINDING: Non-Compliance with Exit Procedures for Separating Employees**

We partly agree with this deficiency. The portion of this finding that pertains to the Fiscal Office is regarding the distribution of released warrants resulting in overpayments to two separated employees. Staff have been reminded of the importance of following instructions on Personnel's Release form (DWR 2785) in order to ensure recovery of outstanding advances and/or accounts receivables. We are taking appropriate steps to collect these overpayments.

We will also be working with the Personnel Office to revise the DWR 2993 form for more efficient processing to improve accuracy.

**FINDING: Untimely and Incomplete Revision of the SCO Personnel/Payroll Document Signature Card Authorization List**

We partly agree with this deficiency. The Fiscal Office maintains its own signature cards with the State Controller's Office for the following types of authorizations:

Non-USPS AR/Collections, STD 995A, 995R  
Supplementary Wage Deductions, STD 675  
Non USPS Adjustment Request, STD 676P, 676V

The existence of the PPSD 8A form was unknown to the Fiscal Office prior to this audit finding. To ensure compliance in the future, the Personnel Office will provide a copy of each PPSD 8A form received from SCO. Fiscal will, in turn, update the form with the most current information related to its employees and their current authorizations.

## EVALUATION OF RESPONSES

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We have reviewed the responses received from the Department of Water Resources management regarding the audit findings and recommendations contained in this internal control review audit report No. 395. Most of the actions planned and/or implemented appear to adequately address the findings and recommendations. On certain deficiencies for which management takes the risk of not correcting the reported finding, we remind management that the ultimate responsibility for good internal controls rest with management.



## **DISTRIBUTION**

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- 1 - Director, Department of Water Resources
- 1 - Acting, Chief Deputy Director, Department of Water Resources
- 1 - Acting, Deputy Director, Business Operations, Department of Water Resources
- 1 - Chief, Fiscal Services Division, Department of Water Resources
- 1 - Chief, Division of Management Services, Department of Water Resources
- 1 - Governor
- 1 - Legislature
- 1- State Auditor
- 1 - Director of the Department of Finance
- 1 - State Library